

Message Text

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ACTION STR-07

INFO OCT-01 IO-13 ISO-00 STRE-00 AGRE-00 CEA-01
CIAE-00 COME-00 DODE-00 EB-08 FRB-03 H-01 INR-10
INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00
AID-05 SS-15 ITC-01 TRSE-00 ICA-11 SP-02 SOE-02
OMB-01 DOE-15 AF-10 ARA-10 EA-10 EUR-12 NEA-11
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P 041204Z MAY 78
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TO SECSTATE WASHDC PRIORITY 9186
INFO ALL EC CAPITALS

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USMTN

USEEC

PASS STR ELECTRONICALLY FOR ACTION

E.O. 11652: N/A
TAGS: ETRD, MTN, EC
SUBJECT: US/EC TOUR D'HORIZON MAY 3

1. SUMMARY. AMBASSADOR MCDONALD ET AL HELD A USEFUL
TOUR D'HORIZON WITH DENMAN ET AL (PHAN VAN PHI, LUYTEN,
DUGIMONT, ABBOT) ON MAY 3. HIGHLIGHTS FOLLOW. END
SUMMARY.

2. TARIFFS

AMBASSADOR MCDONALD TOLD DENMAN THAT WE WERE DOING
OUR UTMOST TO KEEP EC WITHDRAWALS OUT OF THE PUBLIC EYE
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TO PRESERVE A HEALTHY DOMESTIC ENVIRONMENT FOR NEGOTIA-
TIONS, BUT THAT WE WERE SURPRISED BY THE IMBALANCE BETWEEN
THE VALUE OF EC WITHDRAWALS AGAINST U.S. EXPORTS AS COM-
PARED TO U.S. EXCEPTIONS OF INTEREST TO THE EC. MCDONALD
ALSO NOTED THAT THE AVERAGE EC DEPTH-OF-CUT IF WITH-
DRAWALS WERE CARRIED OUT WOULD BE A GOOD DEAL BELOW WHAT
WAS A POLITICALLY ACCEPTABLE OVERALL RESULT. IN RESPONSE,

DENMAN STATED THAT THE LENGTH OF THE EC LIST WAS PARTLY A RESULT OF THE HIGH PROPORTION OF U.S. DUTIES ON WHICH AN OFFER WAS YET TO BE SPECIFIED (ASP ITEMS, FINAL LIST, SPECIFIC DUTIES, ETC.) AND THE NUMBER OF OFFERS THAT THE U.S. CLAIMED WERE CONDITIONAL ON NTM AGREEMENTS. DENMAN ADMITTED, HOWEVER, THAT THE FAR MORE SERIOUS PROBLEM WAS GETTING SUBSTANTIAL IMPROVEMENTS FROM THE JAPANESE. THE EC EXPLAINED THAT ITS PLANS WERE TO PUT HEAVY EMPHASIS ON GETTING FULL FORMULA, BOUND CUTS ON KEY ITEMS THAT HAD BEEN EXCEPTED, AND ADDITIONALLY TO ASK THE JAPANESE TO LOWER APPLIED RATES ON A DE FACTO BASIS WITH THE UNDERSTANDING THAT THESE LOWER APPLIED RATES WOULD REMAIN IN EFFECT AS LONG AS THE JAPANESE HAD A LARGE POSITIVE TRADE BALANCE. ON GREATER-THAN-FORMULA CUTS (G-T-F), DENMAN DOUBTED WHETHER THERE WOULD BE MUCH FOR WHICH THE EC WOULD GIVE THE U.S. OR JAPAN CREDIT. HE CLAIMED THE PROBLEM WAS BALANCING BENEFITS OF G-T-F AMONG THE MEMBER STATES ("ALL THE PROBLEMS OF AN EC EXCEPTIONS EXERCISE IN REVERSE"). THE TWO SIDES CONCLUDED BY AGREEING TO CONTINUE TO COORDINATE THEIR APPROACH ON THE JAPANESE PROBLEM, AND TO MAKE A MAXIMUM EFFORT TO HAVE AGREEMENT ON THE BULK OF THE TARIFF SCHEDULES BY JUNE.

3. SAFEGUARDS

DENMAN FOCUSED ON COMMISSION PAPER OF TEN DAYS AGO
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(GENEVA 6192) WHICH, HE IMPLIED, HAD BEEN RISKY INITIATIVE ON THEIR PART. MEMBER STATES WERE COMPLAINING, ESPECIALLY THE FRENCH, ABOUT THE "TONALITE DE MAUVAISE CONSCIENCE" ATTACHED TO THE SELECTIVE "TRACK"; THEIR "DEEP-SEATED RELUCTANCE" TO GIVING ANY INTERNATIONAL BODY A POWER TO OVERRIDE NATIONAL GOVERNMENTS WAS A CONCERN GOING BEYOND SAFEGUARDS. RESPONDING TO DENMAN'S REQUEST FOR INITIAL U.S. REACTIONS TO THE COMMISSION PAPER, MCDONALD NOTED THAT WE HAD AS YET NO OFFICIAL OR EVEN INFORMAL REACTION FROM WASHINGTON, BUT THAT IN HIS PERSONAL VIEW THE PAPER SEEMED TO BE A GOOD START AT MOVING TOWARD THE EXCEPTIONAL, MORE DISCIPLINED APPROACH TO SELECTIVITY THAT WE REQUIRED. IT FELL FAR SHORT, HOWEVER, ON A NUMBER OF KEY SPECIFICS: E.G., ROLE OF THE COMMITTEE LOOKED QUITE WEAK; THERE WAS PROVISION FOR IMMEDIATE SELECTIVE ACTION ("CRITICAL CIRCUMSTANCES"), WHICH WAS OUT OF THE QUESTION FOR U.S.; REQUIREMENT FOR A SERIOUS INJURY DETERMINATION WAS NOWHERE TO BE FOUND. WE WOULD PROBABLY HAVE FURTHER SPECIFIC PROBLEMS TO CITE WHEN AN OFFICIAL REACTION HAD BEEN FORMULATED, BUT IN GENERAL, WHATEVER WAS DONE WOULD HAVE TO GENUINELY PRODUCE A NET INCREASE IN TOTAL DISCIPLINE ON SAFEGUARD ACTIONS. DENMAN MADE NO SERIOUS

EFFORT TO DEBATE THESE POINTS, BUT NOTED THAT COMMISSION WAS ENCOURAGED BY ITS TALKS WITH JAPANESE, WHOSE "CONDITIONS" WERE TOUGH, BUT NOT UNTHINKABLE. MCDONALD PRESSED TO KNOW HOW QUICKLY WE COULD MOVE INTO TRILATERAL DISCUSSIONS ON SELECTIVITY AND COVERAGE (EXPORT RESTRAINTS); EC HOPED THEY COULD MAKE SUFFICIENT PROGRESS WITH JAPAN TO MAKE TRILATERAL MEETINGS THE WEEK OF MAY 15.

4. SUBSIDIES

AMBASSADOR MCDONALD WELCOMED PROGRESS OF THE LAST TWO WEEKS. HE STRESSED THAT THE U.S. HAD COME VERY FAR TO ACCOMMODATE THE EC POSITION, NOTING SOME CONGRESSIONAL FEARS THAT WE ARE TREADING THE LINE OF ACCEPTABILITY. LIMITED OFFICIAL USE

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DENMAN RESPONDED THAT THE EC ALSO FELT THE PROGRESS WAS

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GOOD, BUT THE EC HAS ITS OWN INTERNAL PROBLEMS. DENMAN SPOKE SPECIFICALLY OF REGIONAL AIDS, STATING THAT THE APPROACH IN THE CODE WOULD HAVE TO BE VERY GENERAL ON

DOMESTIC SUBSIDIES. HE SUGGESTED THE EC MIGHT HAVE TO STAY WITH GENERAL LANGUAGE IN THE PREAMBLE ON DOMESTIC SUBSIDIES. MCDONALD ALSO MENTIONED THAT HE WOULD BE GOING TO BRUSSELS TO SEE RABOT ON AGRICULTURAL SUBSIDIES. HE SAID THE MEETING WOULD PROBABLY TOUCH ON WHAT THE EC AND THE U.S. HAVE BEEN DOING SO FAR IN INDUSTRIAL SUBSIDIES, AS WELL AS HOW TO BEGIN TO GET A HANDLE IN AGRICULTURAL SUBSIDIES (PROBABLY BY DRAWING UPON THE AREA OF COMMODITY AGREEMENTS).

5. GOVERNMENT PROCUREMENT

BOTH SIDES EXPRESSED SATISFACTION AT THE PROGRESS IN THIS AREA. U.S. STRESSED THE NECESSITY TO WORK OUT OUR DIFFERENCES ON EX-POST INFORMATION BEFORE PROCEEDING INTO THE COVERAGE STAGE OF THE NEGOTIATIONS. WE DESCRIBED LIMITED OFFICIAL USE

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US/EC DIFFERENCES AND SUGGESTED IN-DEPTH DISCUSSION BEFORE THE NEXT SCHEDULED GOVERNMENT PROCUREMENT MEETING THE WEEK OF MAY 15. EC AGREED.

6. STANDARDS

THE EC DESCRIBED ITS CONCERNS REGARDING THE DISPUTE SETTLEMENT PROCEDURES FOR THE STANDARDS CODE. BASICALLY, THEY ARE CONCERNED THAT THE DISPUTES ARE LIKELY TO BE HIGHLY TECHNICAL AND DIFFICULT TO RESOLVE WITHIN A FIXED TIME FRAME AND WITH SEVERE PROCEDURAL LIMITATIONS. THEY PREFER THE SOMEWHAT LOOSER PRACTICES NOW CONTAINED IN THE GATT. U.S. STATED THAT WE WERE ANXIOUS TO EXPLORE THE EC'S CONCERN BUT THAT NOW WAS THE TIME TO GET DOWN ON PAPER WHAT THE DIFFICULTIES WERE AND HOW WE MIGHT BEST PROCEED. FYI. AN INFORMAL MEETING OF THE MAJOR DEVELOPED COUNTRIES HAS BEEN ARRANGED TO DISCUSS DISPUTE SETTLEMENT IN THE STANDARDS CODE. END FYI.

7. LICENSING

THE EC RAISED THIS ISSUE AND INQUIRED AS TO THE STATUS OF U.S. DISCUSSIONS WITH OTHER COUNTRIES. EC OFFERED ITS APPRECIATION FOR THE WORK THAT WE WERE DOING WITH THE DEVELOPING COUNTRIES AND OPINED THAT THE EC MAY BE WILLING TO COME ALONG ON THIS ISSUE BUT ONLY "AT THE LAST MOMENT."

8. VALUATION

THE EC SUGGESTED THAT THE U.S. WAS NOT MOVING AS EXPEDITIOUSLY AS POSSIBLE ON THIS SUBJECT. WE RESPONDED THAT THE U.S. HAD OFFERED ITS LEGITIMATE AND SERIOUS

COMMENTS TO THE EC ON THEIR DRAFT BUT THAT THE EC
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APPEARED TO SUFFER FROM PRIDE OF AUTHORSHIP. WE AGREED
TO AGAIN TRY FOR A COMBINED TEXT DURING OUR INFORMAL
MEETINGS NEXT WEEK.

9. DRAFTED BY ROWNY, MARSH, HARTZELL, NEWKIRK.
MCDONALD

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